Alpena General Hospital

Financial Report
June 30, 2004

04-9000

plante moran

Michigan Dept. of Treasury, Local Government Audit Division
L-3147 (Rev. 3/96)

AUDITING PROCEDURES REPORT

04-9000

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: ☐ City ☐ Township ☐ Village ☒ Other	Local Government Name: Alpena General Hospital	County: Alpena
Audit Date: June 30, 2004	Opinion Date: October 5, 2004	Date Accountant Report Submitted To State:

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
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APR - 7 2005
LOCAL AUDIT & FINANCE DIV.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])
☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	☒	☐	☐
Reports on individual federal assistance programs (program audits).	☐	☐	☒
Single Audit Reports (ASLGU).	☒	☐	☐

Certified Public Accountant (Firm Name): **PLANTE & MORAN, PLLC**			
Street Address: 1010 South Garfield Avenue	City: Traverse City	State: MI	ZIP: 49686

Accountant Signature

Plante & Moran, PLLC

Alpena General Hospital

Contents

plante moran

Plante & Moran, PLLC
1010 S. Garfield Ave.
Traverse City, MI 49686
Tel: 231.947.7800
Fax: 231.947.0348
plantemoran.com

Independent Auditor's Report

Board of Trustees
Alpena General Hospital

We have audited the accompanying financial statements of Alpena General Hospital as of June 30, 2004 and 2003 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of Alpena General Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Alpena General Hospital as of June 30, 2004 and 2003 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Hospital has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 5, 2004 on our consideration of Alpena General Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing on internal controls over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

October 5, 2004

Alpena General Hospital

Statement of Net Assets

	June 30 2004	June 30 2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 1,827,097	$ 1,630,915
Current portion of assets limited as to use (Note 5)	783,693	790,176
Patient accounts receivable (Note 3)	2,911,488	3,912,337
Due from third-party payor	1,571,421	907,646
Inventory	2,249,050	2,186,862
Prepaid expenses and other current assets	2,098,648	2,718,362
Total current assets	11,441,397	12,146,298
Assets Limited as to Use (Note 5)	11,677,607	14,276,443
Property and Equipment (Note 6)	37,492,183	35,696,291
Deferred Debt Issue Costs	338,954	377,174
Other Assets	2,058,407	2,153,430
Total assets	**$ 63,008,548**	**$ 64,649,636**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 1,424,222	$ 1,205,000
Accounts payable and accrued expenses	3,114,704	5,354,941
Accrued salaries, payroll taxes and employee benefits	4,614,998	4,500,879
Due to third-party payor	571,121	-
Total current liabilities	9,725,045	11,060,820
Long-Term Debt (Note 7)	14,623,813	14,920,000
Deferred Revenue (Note 9)	1,668,582	1,730,982
Total liabilities	26,017,440	27,711,802
Net Assets		
Invested in capital assets - Net of related debt	20,971,610	18,099,617
Donor restricted for specific purpose	447,972	425,216
Donor restricted for development	1,319,031	1,238,468
Unrestricted	14,252,495	17,174,533
Total net assets	36,991,108	36,937,834
Total liabilities and net assets	**$ 63,008,548**	**$ 64,649,636**

See Notes to Financial Statements.

Alpena General Hospital

Statement of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating Revenue		
Net patient service revenue (Note 4)	$ 74,161,016	$ 74,314,455
Other	3,472,967	3,739,243
Total operating revenue	77,633,983	78,053,698
Operating Expenses		
Salaries and wages	34,405,592	35,963,609
Fringe benefits	12,254,716	12,369,561
Supplies and pharmaceuticals	13,908,680	12,894,023
Utilities and food	1,436,699	1,519,688
Other	6,493,545	7,393,817
Depreciation	4,479,857	4,362,600
Professional services and recruiting	5,341,276	5,718,093
Total operating expenses	78,320,365	80,221,391
Operating Loss	(686,382)	(2,167,693)
Nonoperating Revenue (Expenses)		
Property tax revenue	760,815	748,670
Loss on sale of assets	(81,470)	(74,405)
Restricted gifts and grants	198,662	477,299
Investment income	105,852	201,116
Interest on capital assets - Related debt	(767,793)	(728,483)
Net nonoperating revenue	216,066	624,197
Excess of Revenue Over (Under) Expenses Before Capital Grants	(470,316)	(1,543,496)
Capital Grants	523,590	26,410
Increase (Decrease) in Net Assets	53,274	(1,517,086)
Net Assets - Beginning of year	36,937,834	38,454,920
Net Assets - End of year	**$ 36,991,108**	**$ 36,937,834**

See Notes to Financial Statements.

Alpena General Hospital

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 75,069,211	$ 73,451,148
Cash paid to employees and suppliers	(74,357,416)	(76,290,766)
Other cash receipts	3,410,567	3,676,843
Net cash provided by operating activities	4,122,362	837,225
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	1,128,035	3,925,000
Proceeds from the sale of property and equipment	61,803	7,800
Principal paid on long-term debt	(1,205,000)	(400,000)
Interest paid on long-term debt	(729,573)	(688,850)
Property tax levy	760,815	748,670
Purchase of property and equipment	(7,418,158)	(5,748,162)
Contributions restricted for capital expenditure	722,252	503,709
Decrease in assets limited as to use for capital activities	11,687,607	827,643
Net cash provided by (used in) capital and related financing activities	5,007,781	(824,190)
Cash Flows from Investing Activities		
Income on investments	148,327	251,116
Net Increase in Cash and Cash Equivalents	9,278,470	264,151
Cash and Cash Equivalents - Beginning of year	3,070,389	2,806,238
Cash and Cash Equivalents - End of year	**$ 12,348,859**	**$ 3,070,389**
Balance Sheet Classification of Cash and Cash Equivalents		
Current assets - Cash	$ 1,827,097	$ 1,630,915
Restricted cash and investments	10,521,762	1,439,474
Total cash and cash equivalents	**$ 12,348,859**	**$ 3,070,389**

At June 30, 2004 and 2003, the Hospital had $472,538 and $1,471,674, respectively, recorded in accounts payable that related to construction in progress costs and equipment purchases.

Alpena General Hospital

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2004	2003
Reconciliation of Loss from Operations to Net Cash Provided by Operating Activities:		
Loss from operations	$ (686,382)	$ (2,167,693)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Provision for bad debts	2,101,000	1,866,000
Depreciation	4,479,857	4,362,600
(Increase) decrease in assets:		
Patient accounts receivable	(1,100,151)	(1,202,381)
Due from third-party payor	(663,775)	(576,880)
Inventory	(62,188)	(71,782)
Prepaid expenses and other current assets	619,714	(788,527)
Other	52,548	80,252
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,241,101)	246,018
Accrued salaries, payroll taxes and employee benefits	114,119	102,064
Due to third-party payor	571,121	(950,046)
Deferred revenue	(62,400)	(62,400)
Net cash provided by operating activities	**$ 4,122,362**	**$ 837,225**

See Notes to Financial Statements.

Note 1 – Summary of Accounting Policies

Reporting Entity - Alpena General Hospital (Hospital) is a short-term, acute care facility offering inpatient and outpatient health care services primarily to citizens in the Alpena County, Michigan area. The Hospital is organized under Public Act 230 of the Public Acts of 1987 as a county health facilities corporation.

The Board of County Commissioners appoints the Board of Trustee members of the Hospital, and the Hospital may not issue debt or levy taxes without the county's approval. For this reason, the Hospital is considered to be a component unit of Alpena County and is included as a discretely presented component unit in the basic financial statements of the County.

The accounting policies of the Hospital conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Hospital provides a service to citizens that is financed primarily by a user charge, the accounts of the Hospital are accounted for as an enterprise fund, utilizing the full accrual method of accounting.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provide a comprehensive look at the Hospital's financial activities. No component units are required to be reported in the Hospital's financial statements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to not apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), issued after November 30, 1989.

Cash and Cash Equivalents - Cash and cash equivalents include investments with an original maturity of three months or less and exclude assets limited as to use by Board designation or other arrangements under trust agreements and donor restricted cash.

Inventory - Inventory is stated at the lower-of-cost (first-in, first-out method) or market.

Note 1 – Summary of Accounting Policies (Continued)

Property and Equipment - Property and equipment are stated on the basis of cost or fair market value at date of donation. Buildings and equipment are depreciated over their estimated useful lives by the straight-line method. Major renewals and improvements are capitalized, and maintenance and repairs are charged to expense when incurred.

Deferred Debt Issue Costs - Financing costs are amortized over the life of the related bond issue using the interest method.

Investments - Investments in securities are measured at fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenue over (under) expenses unless the income or loss is restricted by donor or law.

Other Assets - Other assets are comprised of mainly investments the Hospital has in companies in which the Hospital has 20 percent to 50 percent ownership interests. These investment interests are carried at cost, adjusted for the Hospital's proportionate share of its undistributed earnings and losses.

Paid Time Off - The Hospital maintains a paid time off benefit policy. The benefits are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Capital Related Net Assets - Capital related net assets are net assets related to the purchase of property and equipment net of related debt and payables.

Donor Restricted Net Assets - Donor restricted net assets are net assets temporarily restricted for donor specified purposes or the development fund relating to the purchase of capital assets. Donor restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Operating Revenue and Expenses - The Hospital's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Note 1 – Summary of Accounting Policies (Continued)

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Charity care amounts to less than 1 percent of patients served.

Tax Levy - On December 1, 2002 citizens of Alpena County approved a tax levy not to exceed one mill on the taxable value of property in Alpena County for a period of five years. The purpose of this levy is to be used for the acquisition, construction and equipping of health care facilities by the Hospital.

Contributions, Bequests and Grants - Unrestricted gifts and bequests are included in other operating revenue when received.

Note 2 – Deposits and Investments

The Hospital's deposits and investments are included on the balance sheet under the following classifications:

2004	Cash and Cash Equivalents	Assets Limited as to Use	Total
Cash:			
Petty cash	$ 5,250	$ -	$ 5,250
Deposits	1,821,847	6,523,832	8,345,679
Total cash	1,827,097	6,523,832	8,350,929
Investments	-	5,506,504	5,506,504
Total	$ 1,827,097	$ 12,030,336	$ 13,857,433

2003	Cash and Cash Equivalents	Assets Limited as to Use	Total
Cash:			
Petty cash	$ 5,745	$ -	$ 5,745
Deposits	1,625,170	2,742,241	4,367,411
Total cash	1,630,915	2,742,241	4,373,156
Investments	-	11,704,868	11,704,868
Total	$ 1,630,915	$ 14,447,109	$ 16,078,024

The above amounts are classified by GASB Statement No. 3 in the following categories:

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not cleared or of deposits in transit) at $8,894,112 and $4,627,789 at June 30, 2004 and 2003, respectively. Of those amounts, $600,000 was covered by federal depository insurance for both 2004 and 2003, and the remainder was uninsured and uncollateralized. The Hospital believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 2 – Deposits and Investments (Continued)

Investments - The Hospital is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Hospital's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria:

a. Insured
b. Registered
c. Held by the Hospital or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by:

a. The counterparty or
b. The counterparty's trust department (or agent) but not in the Hospital's name

	Category			
2004	1	2	3	Current Value
U.S. government securities	$ -	$ 2,006,504	$ -	$ 2,006,504
Commercial paper	-	3,500,000	-	3,500,000
Total investments				$ 5,506,504

	Category			
2003	1	2	3	Current Value
U.S. government securities	$ -	$ 4,704,868	$ -	$ 4,704,868
Commercial paper	-	7,000,000	-	7,000,000
Total investments				$ 11,704,868

Note 3 – Accounts Receivable

Accounts receivable consist of the following:

	2004	2003
Total patient accounts receivable	$ 26,698,395	$ 25,175,538
Less:		
Allowance for contractual adjustments	19,204,667	16,871,227
Allowance for uncollectible accounts	4,582,240	4,391,974
Net patient accounts receivable	$ 2,911,488	$ 3,912,337

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2004	2003
Medicare	38%	40%
Medicaid	17%	15%
Blue Cross	18%	16%
Commercial and other	10%	11%
Patients	17%	18%
Total	100%	100%

Note 4 – Net Patient Service Revenue

The Hospital grants equal access to health care services to all individuals regardless of financial status. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with third parties. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements occur.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Note 4 – Net Patient Service Revenue (Continued)

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement is as follows:

Medicare - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All outpatient services are paid based on an established fee-for-service methodology subject to hold-harmless provisions.

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

Blue Cross - Inpatient, acute-care services rendered to Blue Cross subscribers are also paid at prospectively determined rates per discharge. Outpatient services are paid on a percentage of controlled charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

Net patient service revenue consisted of the following:

	2004	2003
Inpatient charges	$ 63,796,327	$ 62,841,557
Outpatient charges	96,759,689	85,666,195
Gross patient service charges	160,556,016	148,507,752
Less:		
Provisions for contractual allowances and adjustments	82,963,000	71,243,297
Provision for bad debts	2,101,000	1,866,000
Provisions for charity care services provided	1,331,000	1,084,000
Net patient service revenue	$ 74,161,016	$ 74,314,455

Note 5 – Assets Limited as to Use

Assets limited as to use are summarized as follows:

	2004	2003
Current assets:		
By bond documents for future bond payments:		
Cash and investments	$ 783,693	$ 790,176
Noncurrent assets:		
By Board for future capital acquisitions:		
Cash and investments	9,960,606	12,662,760
Donor restricted:		
Specific purpose fund investments	447,970	425,216
Development fund investments	838,067	568,957
Development fund pledges	430,964	619,510
Total noncurrent	$ 11,677,607	$ 14,276,443

Bond payment and reserve funds are restricted for interest and bond principal payments and future debt service.

Funds designated for replacement and improvement of property and equipment primarily consist of resources of the Hospital that the Board has designated for specific purposes.

Donor restricted items are reflected as additions to the appropriate funds as follows:

Development Fund - The Hospital's Development Committee solicits gifts for certain specific projects. Amounts collected for these projects are included in the development fund, including pledges receivable, of which the majority is expected to be received within five years. The pledges are recorded net of an allowance for uncollectible pledges of $190,000 for both 2004 and 2003.

Specific Purpose Funds - Amounts restricted for capital additions are transferred to the general fund when expenditures that meet these requirements are made.

Note 6 – Property and Equipment

Cost of property and equipment and related depreciable lives for June 30, 2004 are summarized below:

	2003	Additions	Transfers	Retirements	2004	Depreciable Life-Years
Land and land improvements	$ 2,317,340	$ 15,145	$ -	$ -	$ 2,332,485	5 - 25
Building	47,361,712	253,435	1,195,780	-	48,810,927	15 - 40
Equipment	27,294,840	4,385,949	-	(2,723,586)	28,957,203	3 - 20
Construction in progress	163,287	1,764,493	(1,195,780)	-	732,000	
Total	77,137,179	6,419,022	-	(2,723,586)	80,832,615	
Less accumulated depreciation:						
Land and land improvements	891,274	96,102	-	-	987,376	
Building	23,892,880	1,583,436	-	-	25,476,316	
Equipment	16,656,734	2,800,319	-	(2,580,313)	16,876,740	
Total	41,440,888	4,479,857	-	(2,580,313)	43,340,432	
Net carrying amount	$ 35,696,291	$1,939,165	$ -	$ (143,273)	$ 37,492,183	

At June 30, 2004, the Hospital had construction in progress related to a lab information system. The lab information system has a projected cost of $1,200,000 and will be completed utilizing funds designated for replacement and improvement of property and equipment.

Note 6 – Property and Equipment (Continued)

Cost of property and equipment and related depreciable lives for June 30, 2003 are summarized below:

	2002	Additions	Transfers	Retirements	2003	Depreciable Life-Years
Land and land improvements	$ 2,575,540	$ 21,010	$ -	$ (279,210)	$ 2,317,340	5 - 25
Building	44,059,360	619,043	2,896,720	(213,411)	47,361,712	15 - 40
Equipment	24,728,695	4,008,773	-	(1,442,628)	27,294,840	3 - 20
Construction in progress	488,997	2,571,010	(2,896,720)	-	163,287	
Total	71,852,592	7,219,836	-	(1,935,249)	77,137,179	
Less accumulated depreciation:						
Land and land improvements	1,076,933	93,550	-	(279,209)	891,274	
Building	22,308,066	1,777,240	-	(192,426)	23,892,880	
Equipment	15,546,333	2,491,810	-	(1,381,409)	16,656,734	
Total	38,931,332	4,362,600	-	(1,853,044)	41,440,888	
Net carrying amount	$ 32,921,260	$2,857,236	$ -	$ (82,205)	$ 35,696,291	

Note 7 – Long-Term Debt

Long-term liability activity for the year ended June 30, 2004 was as follows:

	2003	Current Year Additions	Current Year Reductions	2004	Current Portion
Bonds payable:					
Series 1999	$ 6,775,000	$ -	$ 275,000	$ 6,500,000	$ 275,000
Series 2000	5,425,000	-	200,000	5,225,000	200,000
Series 2003	3,925,000	-	730,000	3,195,000	760,000
Note payable	-	1,128,035	-	1,128,035	189,222
Total	$ 16,125,000	$ 1,128,035	$ 1,205,000	$ 16,048,035	$ 1,424,222

Long-term liability activity for the year ended June 30, 2003 was as follows:

	2002	Current Year Additions	Current Year Reductions	2003	Current Portion
Bonds payable:					
Series 1999	$ 7,025,000	$ -	$ 250,000	$ 6,775,000	$ 275,000
Series 2000	5,575,000	-	150,000	5,425,000	200,000
Series 2003	-	3,925,000	-	3,925,000	730,000
Total	$ 12,600,000	$ 3,925,000	$ 400,000	$ 16,125,000	$ 1,205,000

Note 7 – Long-Term Debt (Continued)

The bonds payable are summarized as follows:

- General obligation bonds Series 1999 bearing interest at rates ranging from 4.85% to 4.88% percent. Interest is due and payable on a semi-annual basis. The bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $275,000 to $550,000. The bonds are collateralized by net revenue of the Hospital.

- General obligation bonds Series 2000 bearing interest at rates ranging from 5% to 5.35%. Interest is due and payable on a semi-annual basis. The bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $200,000 to $550,000. The bonds are collateralized by net revenue of the Hospital.

- General obligation bonds Series 2003 bearing an interest rate of 3.53%. Interest is due and payable on a semi-annual basis. These bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $760,000 to $840,000. These bonds are collateralized by net revenue of the Hospital.

- Equipment note payable that bears interest at a fixed rate of 4.27%, collateralized by the equipment. This note is due in monthly installments of $20,912 including interest.

In connection with the bond issues, the Hospital has agreed to various covenants. These covenants include maintaining a sinking fund for the annual principal payment and certain financial ratios.

The following is a schedule by years of bond principal and interest as of June 30, 2004:

	Principal	Interest
2005	$ 1,424,222	$ 728,129
2006	1,525,034	671,901
2007	1,559,399	608,989
2008	1,649,172	543,514
2009	844,370	474,695
2010-2014	3,495,838	1,852,277
2015-2019	4,450,000	869,150
2020-2024	1,100,000	28,119
Total payments	$ 16,048,035	$ 5,776,774

Note 8 – Retirement Benefits

Plan Description - The Hospital sponsors both a defined benefit plan and a defined contribution plan. The Hospital participates in the Michigan Municipal Employees Retirement System (MMERS). MMERS covers all employees of the Hospital hired before March 1, 1999. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 447 North Canal Road, Lansing, Michigan, 48917.

Funding Policy - Benefit provisions of the MMERS, and employer and employee obligations to contribute, are outlined in Act No. 47 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior service cost over a 40 year period, net of amortization of investment gains over a 10 year period. In previous years, the administrator of the MMERS plan reduced the Hospital's funding requirements due to favorable actuarial experience. This resulted in a timing difference between the pension expense recorded and the amount funded. This difference has been reflected as a long-term pension liability.

Annual Pension Cost - The Hospital's contributions to the plan amounted to $2,118,332 and $2,207,288 in 2004 and 2003, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2003 and 2002.

Three year trend information is presented below to show the progress of the Hospital's status regarding certain key indicators.

	Year Ended December 31		
	2003	2002	2001
Annual Pension Cost (APC)	$ 2,118,332	$ 2,207,288	$ 2,351,031
Percentage of APC contributed	100.00%	100.00%	100.00%
Actuarial value of assets	85,876,316	79,395,244	76,328,779
Actuarial accrued liability (entry age)	95,138,112	86,848,471	80,807,139
Unfunded Actuarial Accrued Liability (UAAL)	(9,261,796)	(7,453,227)	(4,478,360)
Funded ratio	90.26%	91.42%	94.46%
Covered payroll	24,144,823	27,240,977	27,176,488
UAAL as a percentage of covered payroll	38.36%	27.36%	16.48%

Note 8 - Retirement Benefits (Continued)

The Hospital sponsors a defined contribution plan covering all employees hired after March 1, 1999. Participating employees in this plan may contribute a percent of their gross earnings and the Hospital contributes 6 percent to 9 percent based on participants' contributions. The Hospital's contribution totaled $499,202 and $738,536 for the years ended June 30, 2004 and 2003, respectively.

Note 9 - Deferred Revenue

Deferred revenue relates to a prepaid lease from a joint venture that occupies a portion of a building attached to the Hospital. Under terms of the agreement, the lessee paid for a portion of the construction cost of the building, which the Hospital owns. In exchange, the Hospital issued a 30 year lease. Under terms of the lease agreement, the lessee makes no payments for rental of the building although payments are made to the Hospital for certain operating costs of the building, such as housekeeping, utilities, and maintenance.

During the year ended June 30, 2001, the Hospital recorded deferred revenue and building in the amount of $1,860,982. Rental income of $62,400 will be recognized each year for the remainder of the 30 year lease.

	2004	2003
Deferred revenue - Beginning of year	$ 1,730,982	$ 1,793,382
Less rental income recognized	(62,400)	(62,400)
Deferred revenue - End of year	$ 1,668,582	$ 1,730,982

Note 10 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for property loss, torts, and errors and omissions and participates in the Michigan Hospital Association risk pool for claims related to employee injuries (workers' compensation) and unemployment. The Hospital is self-insured for medical benefits provided to employees. The Hospital has purchased a stop loss insurance policy to cover individual medical claims in excess of amounts ranging from $75,000 to $100,000 in any one plan year. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

Note 10 – Risk Management (Continued)

The Michigan Hospital Association Risk Pool program operates as a common risk-sharing management program for hospitals in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

Medical - The Hospital estimates the liability for medical claims that have been incurred through the end of the fiscal year, including both claims that have been reported, as well as those that have not yet been reported. These estimates are recorded as a short-term liability.

Changes in the estimated liability for the past two years were as follows:

	2004	2003
Estimated liability - Beginning of year	$ 593,555	$ 592,705
Estimated claims incurred, including changes in estimates	2,881,349	2,279,000
Claim payments	(3,039,840)	(2,278,150)
Estimated liability - End of year	$ 435,064	$ 593,555

Malpractice - The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible towards the cost of litigating or settling any asserted claims. In addition, the Hospital bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital is involved in certain legal actions arising from services provided to patients. Although the Hospital is unable to precisely estimate the ultimate cost of settlements of professional liability claims, provision is made for management's best estimate of losses of uninsured portions of pending claims and for known incidents that may result in the assertion of additional claims.

Note 10 - Risk Management (Continued)

The accrual for estimated malpractice claims was $677,000 and $600,000 at June 30, 2004 and 2003, respectively. Management believes, after considering legal counsel's evaluations of all actions and claims, that insurance coverage and accruals for estimated losses are adequate to cover expected settlements.

Note 11 - Assets Held By Others

The Northeast Michigan Community Foundation has an endowment fund established by donors for the benefit of the Hospital. The donors have stipulated that the principal is to be maintained in perpetuity and the Hospital is entitled to the earnings on such funds for operating purposes. The balance of the fund held at the Community Foundation at June 30, 2004 and 2003 was $1,265,661 and $1,096,869, respectively. These funds are not included with the Hospital's assets on the statement of net assets.

Aga 11/29/04

plante moran

Plante & Moran, PLLC
1010 S. Garfield Ave.
Traverse City, MI 49686
Tel: 231.947.7800
Fax: 231.947.0348
plantemoran.com

October 5, 2004

Board of Trustees
Alpena General Hospital

In planning and performing our audit of the financial statements of Alpena General Hospital for the year ended June 30, 2004, we considered the Hospital's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation where we feel opportunities for improvement exist, as well as some additional areas for Board consideration.

This report contains our observations, comments, and other items we feel warrant your consideration. All items are presented for your consideration on attachments as outlined below:

Title	Exhibit
Electronic Vendor Payments	A
Highlights of the OIG's 2004 Work Plan and HIPAA Code Implementation Guidance	B
Statement on Auditing Standards No. 99 Consideration of Fraud in a Financial Statement Audit	C
Advance Beneficiary Notices	D
Changing Internal Financial Statements to Reflect Changes of GASB 34	E
GASB 45 - Retiree Healthcare Benefits	F
General Internal Controls and Procedures	G

The report is intended solely for the information and use of the Board of Trustees, management, and others within the Hospital. Please call us if we can help on implementing any of the above recommendations.

Sincerely,

PLANTE & MORAN, PLLC

Michael A. Baker, CPA
Partner

Enclosures

Alpena General Hospital
Exhibit A
Electronic Vendor Payments

Alpena General Hospital utilizes a local bank to electronically pay certain vendors through the Automated Clearing House (ACH) system. Under this system, the vendor's applicable data, which includes a bank account number, is set up as a payee on the bank's system. System access includes the ability to set up vendors, initiate outgoing payments and view payment activity. An employee's access privileges are set up by the system administrator, who is an employee of Alpena General Hospital.

During our testing, we noted that at least one employee has the ability to not only set up a vendor in the system but also to initiate payments.

We recommend the entire electronic payments system be reviewed and the applicable internal controls be strengthened. Control objectives should include the following:

- Segregate the ability to set up a vendor and initiate a payment
- Require an electronic approval process that will not allow a payment to be processed without proper approvals
- Require a second approval via electronic means to set up a new vendor
- Periodically review the access privileges granted to each employee to determine if the access privileges granted are still necessary

Alpena General Hospital
Exhibit B
Highlights of the OIG's 2004 Work Plan and HIPAA Code Implementation Guidance

The HHS Office of Inspector General (OIG) announced through its "Semiannual Report to Congress" that its initiatives saved American taxpayers over $23 billion in FY03. That amounts to approximately $1 billion more than last year's savings and a return of $117 for each dollar spent on OIG audits, evaluations, investigations, and other activities. This included $988 million in receivables from investigations. Accordingly, continued focus by the OIG on corporate compliance will be strong.

Highlights from the OIG's 2004 Work Plan include, but are not limited to:

Inpatient Capital Payments – OIG will examine Medicare inpatient hospital capital payments, including the accuracy and appropriateness of the CMS process for updating the capital rates, and will determine whether hospitals have used capital payments for their intended purposes.

Diagnosis-Related Group Payment Limits – OIG will assess the ability of Medicare contractors to limit payments to hospitals for patients who are discharged from a prospective payment inpatient hospital and admitted to one of several post acute-care settings.

Update on Diagnosis-Related Group (DRG) Coding – OIG will examine DRGs that have a history of aberrant coding to determine whether some acute hospitals exhibit aberrant coding patterns. OIG will also determine coding payment error rates and incorporate the results of a recent review by quality improvement organizations.

Outpatient Prospective Payment System – OIG will review several aspects of the payment system, including multiple procedures performed during a single encounter and transitional pass-through payments.

Hospital Reporting of Restraint-Related Deaths – OIG will assess compliance with reporting requirements for deaths that may have been caused by restraints or seclusion.

Coronary Artery Stents – OIG will review claims to determine if Medicare payments were appropriate and if the services were medically necessary and supported by adequate documentation in the medical charts.

Diagnostic Testing in Emergency Rooms – OIG will assess the appropriateness of Medicare billings for diagnostic tests performed in hospital emergency rooms and determine if the services were medically necessary and whether the tests were interpreted contemporaneously with the beneficiary's treatment.

Alpena General Hospital
Exhibit B
Highlights of the OIG's 2004 Work Plan and HIPAA Code Implementation Guidance (Continued)

Coding of Evaluation and Management (E&M) Services – OIG will assess adequacy of controls to identify physicians with aberrant coding patterns, specifically coding disproportionately high volumes of high-level E&M codes that result in greater Medicare reimbursement.

HIPAA Code Implementation Guidance:

Beginning October 1, 2004, Medicare will reject all outpatient claims with ICD-9 procedure codes, per the May 14, 2004 announcement by CMS. Medicare has not been rejecting outpatient claims if they contain ICD procedure codes, but this has resulted in noncompliant coordination of benefits (COB) claims. Instead, providers should use HCPCS and CPT codes, which are the valid code sets for outpatient claims.

We commend the Hospital on its focus and efforts related to corporate compliance.

Alpena General Hospital
Exhibit C
Statement on Auditing Standards No. 99
Consideration of Fraud in a Financial Statement Audit

The reality of the world today is an environment of higher risks of fraudulent activities, and healthcare has not been immune to those risks. As a result, the accounting profession has been busy revising standards for audit services. Effective for years ended December 31, 2003 and thereafter, Statement on Auditing Standards No. 99 (SAS 99), Consideration of Fraud in a Financial Statement Audit, required additional audit procedures addressing the risk of fraud in an organization. Our overall responsibility under the new standard has not changed—the auditor's responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud. The new standard does, however, require us to perform new and different auditing procedures that we have not done in the past. Our consideration of the possibility of fraud will be integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address:

- How and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur.
- How management could perpetrate and conceal fraud.
- How assets of the client could be misappropriated by management or employees.

In addition, SAS 99 requires auditors to make inquiry of:

- Management regarding their awareness and understanding of fraud, fraud risks, and steps taken to mitigate risks.
- Others within the entity, including board members, non-financial executives, administrators, and non-management personnel not directly involved in the financial reporting process, regarding the existence or suspicion of fraud and the individual's views about the risks of fraud within the entity.

Risk areas identified through inquiries and based on industry knowledge will significantly affect the audit process. At a minimum, examination of journal entries, a retrospective review of accounting estimates and development of an understanding of the business rationale for significant, unusual transactions will be required.

The implementation of these new standards will certainly lead to a greater comfort in the controls you have designed and implemented. It may even create greater efficiency in the accounting process as a byproduct of the process.

Alpena General Hospital
Exhibit D
Advance Beneficiary Notices

The Centers for Medicare and Medicaid Services (CMS) released the final version for Advance Beneficiary Notices as part of their Beneficiary Notices Initiative (BNI). The CMS format and beneficiary information is to be used by all providers. The deadline for implementation of these forms was October 2002.

Advance Beneficiary Notices (ABNs) advise beneficiaries, before items or services actually are furnished, when Medicare is likely to deny payment for them. The ABN allows beneficiaries to make informed consumer decisions about receiving items and/or services when they may be required to pay out-of-pocket expenses and to be more active participants in their own healthcare treatment decisions. All of the new ABNs are designed to be beneficiary-friendly, readable and understandable, with the patient options clearly defined, including the cost for the possible non-covered services and tests.

The provider must obtain a signed ABN for services that have been ordered and may not be covered and specifically state the patient is going to:

1. Refuse the test and will not receive the test or treatment, or
2. Have the test or treatment and acknowledge that they will be responsible for payment if services are not covered.

If ABNs are not provided, neither Medicare nor the beneficiaries are responsible for payment of the non-covered services.

Alpena General Hospital
Exhibit E
Changing Internal Financial Statements to Reflect Changes of GASB 34

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 – Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The Hospital adopted "business-type" activities reporting requirements in their June 30, 2003 audited financial statements. However, it was noted that the Hospital has not adopted the same reporting requirements for their internal monthly financial statements.

In order to properly reflect the presentation of the financial statements in accordance with GASB No. 34 and also to eliminate difference in presentation between the annual audit and internal financial statements, we recommend the Hospital apply the following changes to their internal monthly financial statements:

- Bad debts are considered a revenue deduction and should be netted against gross revenue rather than included in the operating expenses.
- Interest expense related to the debt for capital improvements is considered a non-operating expense and should be included in the non-operating section of the statement of revenue, expenses and changes in net assets.
- Property tax revenue is now considered a non-operating source of revenue and should therefore be included in the non-operating section of the statement of revenue, expenses and changes in net assets.
- The gifts and grants received should is considered non-operating revenue and therefore should be included on the statement of revenue, expenses and changes in net assets in the non-operating section, rather than a direct addition to the net assets account.
- The terminology for the general fund has changed. It is now referred to as net assets.

Alpena General Hospital
Exhibit F
GASB 45 – Retiree Healthcare Benefits

The Government Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid.

The new pronouncement will require a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007 or 2008, depending on whether your revenues are over $100 million, between $10 million and $100 million, or under $10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

Alpena General Hospital
Exhibit G
General Internal Controls and Procedures

The following suggestions are offered as a result of discussions and observations made during the course of our audit.

Cash – The Hospital has numerous cash accounts on the general ledger as well as numerous bank accounts. The majority the accounts are reconciled on a monthly basis, however they are reconciled by the same person responsible for handling the daily activities of the account. In addition, none of the cash accounts are reviewed by a manager. During our audit, we also noted that the general disbursing account had not been reconciled on a monthly basis.

We recommend to management that they take a look at the controls related to their cash accounts, keeping in mind the following items:

- Separation of duties
- Timely reconciliations
- Review of the major accounts by management
- Appropriate number of cash accounts

Accounts Payable – The Hospital records a payable and an expense when the purchase orders are filled and the merchandise is received, to an accounts payable receiving account and the appropriate expense. When invoices are received they are matched with the purchase orders and then cleared out of the accounts payable receiving account and recorded in the regular accounts payable account. It appears, however, that some of the invoices are getting paid and expensed without first being matched to the accounts payable receiving account to see if the purchase order relating to the invoice had already been recorded. Since this step is not being performed, some of the invoices, which were already expensed when the merchandise was received, are being expensed again when the invoice is paid.

We recommend to management that they consider updating their procedures for matching invoices to purchase orders to eliminate double counting of expenses.

Loan Covenants – One of the loan covenants associated related to your outstanding bonds is to provide the bank with internally prepared monthly financial statements within 20 days of each month end. In addition, audited financial statements are required to be submitted within 120 days after year end. Not providing these statements is a violation of the covenants and, if the bank chose to do so, they could recall the bonds.

We recommend that the monthly financial statements be sent to the bank on a monthly basis to comply with the provision for the bond documents.

Alpena General Hospital

Federal Awards

Supplemental Information

June 30, 2004

plante moran

Alpena General Hospital

Contents

plante moran

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Independent Auditor's Report

Board of Trustees
Alpena General Hospital

We have audited the basic financial statements of Alpena General Hospital for the year ended June 30, 2004 and have issued our report thereon dated October 5, 2004. Those basic financial statements are the responsibility of the management of Alpena General Hospital. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Alpena General Hospital taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 5, 2004

plante moran

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Report Letter on Compliance with Laws and Regulations and
Internal Control - Basic Financial Statements

Board of Trustees
Alpena General Hospital

We have audited the financial statements of Alpena General Hospital as of and for the year ended June 30, 2004 and have issued our report thereon dated October 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Alpena General Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alpena General Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Trustees
Alpena General Hospital

This report is intended solely for the information and use of the Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 5, 2004

plante moran

Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards

Board of Trustees
Alpena General Hospital

Compliance

We have audited the compliance of Alpena General Hospital with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of Alpena General Hospital is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Alpena General Hospital's management. Our responsibility is to express an opinion on Alpena General Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alpena General Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Alpena General Hospital's compliance with those requirements.

In our opinion, Alpena General Hospital complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Board of Trustees
Alpena General Hospital

Internal Control Over Compliance

The management of Alpena General Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Alpena General Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 20, 2004

Alpena General Hospital

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Health and Human Services				
Health Resources and Services Administration - Direct				
Rural Health Outreach and Rural Network Development Program				
Heartnet Rural Collaborative - May 03-April 04	93.912A	ID04RH 00177-01	$ 170,485	$ 152,197
Administration on Aging - Direct				
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services				
Health Screenings - Oct 02-Sep 03	93.043	3D-Preventive Health	21,937	8,846
Volunteer Respite Care - Oct 02-Sep 03	93.052	N/A	36,000	9,921
Volunteer Respite Care - Oct 03-Sep 04	93.052	N/A	23,782	7,813
Total Volunteer Respite Care				17,734
National Family Caregiver Support				
Heart-N-Soul - Grant Year Oct 02-Sep 03	93.052	3E-NFCSP	1,500	505
Heart-N-Soul - Grant Year Oct 03-Sep 04	93.052	3E-NFCSP	1,750	1,239
Total Heart-N-Soul				1,744
Care Giver Education/Healthy Seniors Oct 03-Sep 04	93.052	3G-NFCSP	2,163	517
Total Administration on Aging - Direct				**28,841**
Block Grants for Prevention and Treatment of Substance Abuse (passed through the Michigan Department of Community Health and Northern Michigan Substance Abuse Services)				
Birchwood - Oct 02-Sep 03	93.959	DCH-0384	164,000	7,157
Birchwood - Oct 03-Sep 04	93.959	DCH-0384	164,000	101,497
Total Block Grants for Prevention and Treatment of Substance Abuse				**108,654**
Center for Disease Control and Prevention (passed through the Michigan Department of Community Health)				
Investigations and Technical Assistance - Oct 02-Sep 03	93.283	U59/CCU517742-01	18,000	5,056
Investigations and Technical Assistance - Oct 03-Sep 04	93.283	U59/CCU517742-01	15,000	10,132
Total Center for Disease Control and Prevention				**15,188**
Northwest Regional Medical Central Authority - (Passed through Munson Medical Center) - Michigan Bioterrorism Hospital Preparedness Program - Jul 03-Jun 04	93.003	103R00003-01	21,805	15,733
Total U.S. Department of Health and Human Services				**320,613**

See Notes to Schedule of Expenditures of Federal Awards.

Alpena General Hospital

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Agriculture - Rural Utilities Service - Direct - Regional Radiologic Digital Imaging Management System - Nov 00-Nov 03	10.855	MI-712-17A	350,000	323,590
Total U.S. Department of Agriculture				**323,590**
U.S. Environmental Protection Agency - Direct Asthma Education Home Visits - Oct 03-Sep 04	66.034	XA-96528601-0	20,000	2,694
Total U.S. Environmental Protection Agency				**2,694**
Total Federal Expenditures				**$ 646,897**

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Alpena General Hospital and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
U.S. Department of Health and Human Services		
Health Resources and Services Administration - Direct		
Rural Health Outreach and Rural Network Development Program - Rural Collaborative		
Grant Year 2003	93.912A	
County of Alpena, Michigan		$ 12,779
Alcona Citizens for Health, Inc.		8,987
Thunder Bay Community Health Service		17,614
Grant Year 2004		
Alcona Citizens for Health, Inc.		748
Thunder Bay Community Health Service		1,104
Total amount provided to subrecipients		$ 41,232

Alpena General Hospital

Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ____ Yes __X__ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
10.855	Digital Imaging Management System

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low risk auditee? ____ Yes __X__ No

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

Section III - Federal Program Audit Findings

Reference Number	Findings
	None

Alpena General Hospital

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2004

Reference Number	Corrective Action Taken
2003-01 and 2002-01	**Program Name** – Rural Health Outreach and Rural Network Development Program – Heartnet Rural Collaborative **Finding Type** – Reportable Condition related to a major program **Finding Description** – Alpena General Hospital does not periodically monitor the subrecipient's compliance with the provisions of the grant through (1) review of financial reports, performance reports, audit reports, resolution of audit findings or (2) on site monitoring reviews. **Contact Person Responsible for Corrective Action** – Mike Sequin, Director of Reimbursement and Budget **Corrective Action Taken** – Alpena General Hospital has obtained written agreements and financial statement and federal program reports from all subrecipients. It appeared that all subrecipients were in compliance with all federal requirements.